



## *CNP Assurances Measures to Reduce Earnings Volatility First-half 2007*

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*12 September 2007*



### **Notes**

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## Measures to Reduce Earnings Volatility 1/4

- ▼ **Observation:** equity funds classified as trading securities generate earnings volatility due to remeasurement at fair value to reflect changes in the financial markets which are recognised through profit.
- ▼ After defining **analysis criteria**, we have come up with a method of reducing earnings sensitivity, with the aim of:
  - Limiting the volatility generated by short-term changes in the financial markets, which are inconsistent with our longer-term approach to asset/liability management (ALM).
  - Reporting earnings figures that reflect our underlying ALM performance, by using consistent reporting systems.
  - Ensuring that we have the ability to implement robust ALM processes
- ▼ **Solutions:**
  - Hedging programmes for these securities (in 2007)
  - Phased sale of units in these equity funds
  - Improved disclosure of recurring profit through enhanced allocation of gains and losses above and below EBIT

## Notes

## Measures to Reduce Earnings Volatility 2/4

- ▼ Enhanced allocation of gains and losses above and below EBIT:
  - ↔ Realized gains and losses on AFS recognised separately from realized gains and losses on trading securities
  - ↑ Realized gains no longer limited to proprietary portfolios
  - ↔ Realized gains on equities classified as AFS combined with other-than-temporary impairment losses
  - ↔ Realized gains on investment property combined with realized gains on equities classified as AFS

## Notes

## Measures to Reduce Earnings Volatility 3/4

### Analysis of the changes at 31 December 2006

At 31/12/2006  
in €m

	Former Presentation		New Presentation
EBIT (net of policyholder participation)	*Realized gains on Trading securities *Realized gains on investment property *Realized gains on equities (AFS) excluding proprietary portfolios	1594	1518
Net realized gains on equities and investment property	*Realized gains on equities (Trading securities) (33)	86	71
Attributable recurring profit (net of policyholder participation, income tax expense and minority interests)		1048	902
Effect of financial market changes on Trading securities	*Impairment *Fair value adjustments (Trading securities)	58	104

Diagram illustrating the changes between the Former and New Presentations:

- 1: Realized gains on equities (AFS) proprietary portfolios + other portfolios (1594 - 86 = 1508)
- 2: Realized gains on equities (AFS) proprietary portfolios + other portfolios (1508 - 71 = 1437)
- 3: Realized gains on equities (AFS) proprietary portfolios + other portfolios (1437 - 104 = 1333)
- 4: Realized gains on equities (AFS) proprietary portfolios + other portfolios (1333 - 58 = 1275)

### Reported net profit is unchanged

## Notes

## Measures to Reduce Earnings Volatility 4/4

### ▼ Summary

	30/06/2006	30/06/2006 Desensitization	31/12/2006
EBIT	645	636	1,594
- Finance costs & Associates	-24	-24	-59
- Income tax expense	-207	-195	-431
- Minority interests	-112	-107	-242
<b>Recurring profit before capital gains</b>	<b>302</b>	<b>310</b>	<b>862</b>
Net realized gains on equities and investment property/realized gains on equities held in propi	44	12	86
<b>Recurring profit</b>	<b>346</b>	<b>322</b>	<b>948</b>
+/- Effect of financial market changes on Trading securities/Fair value adjustments	-65	-41	58
+ Effect of Finance Act			139
<b>Reported net profit (income statement)</b>	<b>280</b>	<b>280</b>	<b>1,145</b>

Attributable to equity holders

## Notes